Supplementary Balance Sheet Information

At December 31	1997	1996
Property, Plant and Equipment		
Machinery, electronic and other equipment	$ 37,433	$ 32,761
Buildings and improvements	6,744	6,251
Land and improvements	386	373
Total property, plant and equipment	44,563	39,385
Accumulated depreciation	(21,853)	(19,649)
Property, plant and equipment – net	$ 22,710	$ 19,736
Other Assets		
Unamortized goodwill	$ 1,277	$ 1,325
Deferred charges	724	477
Other	508	510
Total other assets	$ 2,509	$ 2,312

Supplementary Cash Flow Information

For the Years Ended December 31	1997	1996	1995
Interest payments net of amounts capitalized	$ 207	$ 364	$ 436
Income tax payments	2,414	2,136	2,016

6. Business Restructuring and Other Charges

In the fourth quarter of 1995 we recorded a pretax charge of $3,023 to cover restructuring costs of $2,301 and asset impairments and other charges of $722. This charge included plans to exit certain proprietary network and messaging services; restructure customer service organizations; consolidate call servicing centers; exit certain satellite services; reorganize corporate support functions such as information systems, human resources and financial operations, and restructure certain international operations.

As part of our plan to sell certain businesses and to restructure our operations, restructuring liabilities of $1,712 were recorded for employee separation costs, costs associated with early termination of building leases and other items. In addition, asset impairments of $567 (which directly reduced the carrying value of the related asset balances) and $22 of benefit plan losses were recorded.

The 1995 restructure charge of $2,301 included separation costs for nearly 17,000 employees, which included approximately 12,000 management and 5,000 occupational employees. As of December 31, 1997, approximately 6,800 management employees and 2,300 occupational employees have been separated. Of the 6,800 management separations, approximately 4,300 accepted voluntary severance packages.

During 1996 and 1997 we completed the restructuring of our proprietary network and messaging services business, closed several call servicing centers, consolidated customer care centers, sold certain international operations and reorganized certain corporate support functions. The implementation of certain restructuring activities are occurring at a slower pace than planned. There have been delays in exiting certain businesses and reorganizing corporate support functions, in part to ensure customer satisfaction during this transition period. However, certain facility costs have payment terms extending beyond 1998. We believe that the balance is adequate to complete these plans.

On January 26, 1998, we announced a voluntary retirement incentive program to be offered to managers during the second quarter of 1998. The expected acceptance rate of 10,000 to 11,000 employees for the voluntary retirement incentive offer may impact the utilization of the remaining 1995 restructuring reserve balance. Another 5,000 to 7,000 employees will leave through a combination of managed attrition and previously announced workforce reductions.

The following table displays a rollforward of the liabilities for business restructuring from December 31, 1995, to December 31, 1997:

Type of Cost	Dec. 31, 1995 Balance	1996 Additions	1996 Amounts Utilized	Dec. 31, 1996 Balance
Employee separations	$ 925	$ –	$ (319)	$ 606
Facility closings	761	–	(233)	528
Other	406	–	(152)	254
Total	$ 2,092	$ –	$ (704)	$ 1,388

Type of Cost	Dec. 31, 1996 Balance	1997 Additions	1997 Amounts Utilized	Dec. 31, 1997 Balance
Employee separations	$ 606	$ –	$ (193)	$ 413
Facility closings	528	–	(94)	434
Other	254	–	(194)	60
Total	$1,388	$ –	$ (481)	$ 907

1997 utilization includes $100 reversal of pre-1995 reserves. 1996 utilization includes $112 of net transfers to Lucent and NCR.

The balance at December 31, 1997, includes $180 of pre-1995 charges primarily related to excess space in various leased facilities and is expected to be fully utilized over the remaining terms of the leases.

The 1995 charge of $722 for asset impairments and other charges included $668 for writing down certain impaired assets, including the write-down in the value of some unnecessary network facilities, the write-down of non-strategic wireless assets and the reduction in value of some investments. There were no assets to be disposed of or sold included in these write-downs. The charge also included $54 of other items, none of which individually exceed 1% of the total charge.

The total pretax charge of $3,023 for 1995 was recorded as $844 in network and other communications services expenses; $934 in depreciation and amortization expenses, and $1,245 in selling, general and administrative expenses. If viewed by type of cost, the combined charges reflect $950 for employee separations and other related items; $1,235 for asset write-downs; $497 for closing, selling and consolidating facilities; and $341 for other items. The total charge reduced income from continuing operations by $2,032, or diluted earnings per share by $1.28 in 1995.

In addition, charges of $1,172 (net of taxes) in the third quarter of 1995 and $2,149 (net of taxes) in the fourth quarter of 1995 are reflected in the loss from discontinued operations. These charges reduced income from discontinued operations by a total of $3,321, or diluted earnings per share by $2.08 in 1995.

7. Income Taxes

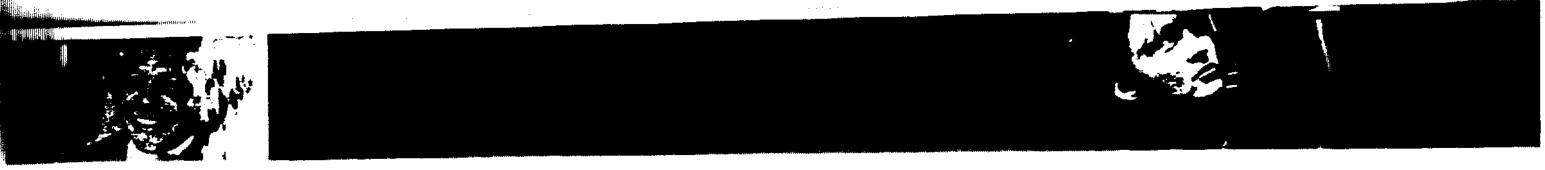
The following table shows the principal reasons for the difference between the effective income tax rate and the United States federal statutory income tax rate:

For the Years Ended December 31	1997	1996	1995
U.S. federal statutory income tax rate	35 %	35 %	35 %
Federal income tax at statutory rate	$ 2,517	$ 3,084	$ 1,743
Amortization of investment tax credits	(14)	(21)	(35)
State and local income taxes, net of federal income tax effect	182	272	179
Amortization of intangibles	20	13	62
Foreign rate differential	117	131	(11)
Taxes on repatriated and accumulated foreign income, net of tax credits	(32)	19	17
Legal entity restructuring	–	(195)	–
Research credits	(63)	(13)	(24)
Other differences – net	(6)	(53)	12
Provision for income taxes	$ 2,721	$ 3,237	$ 1,943
Effective income tax rate	37.8 %	36.7 %	39.0 %

The U.S. and foreign components of income before income taxes and the provision for income taxes are presented in this table:

For the Years Ended December 31	1997	1996	1995
Income Before Income Taxes			
United States	$ 7,311	$ 9,013	$ 5,465
Foreign	(118)	(203)	(487)
Total	$ 7,193	$ 8,810	$ 4,978
Provision for Income Taxes			
Current			
Federal	$ 1,561	$ 2,291	$ 1,922
State and local	192	397	383
Foreign	49	25	1
	$ 1,802	$ 2,713	$ 2,306
Deferred			
Federal	$ 851	$ 511	$ (221)
State and local	89	23	(108)
Foreign	(5)	11	1
	$ 935	$ 545	$ (328)
Deferred investment tax credits	(16)	(21)	(35)
Provision for income taxes	$ 2,721	$ 3,237	$ 1,943

Deferred income tax liabilities are taxes we expect to pay in future periods. Similarly, deferred income tax assets are recorded for expected reductions in taxes payable in future periods. Deferred income taxes arise because of differences in the book and tax bases of certain assets and liabilities.



Deferred income tax liabilities and assets consist of the following:

At December 31	1997	1996
Long-Term Deferred Income Tax Liabilities		
Property, plant and equipment	$ 6.204	$ 5,302
Investments	319	96
Other	1.185	1,403
Total long-term deferred income tax liabilities	$ 7.708	$ 6,801
Long-Term Deferred Income Tax Assets		
Business restructuring	$ 162	$ 195
Net operating loss/credit carryforwards	273	220
Employee pensions and other benefits – net	1,026	1,298
Reserves and allowances	93	120
Other	654	305
Valuation allowance	(211)	(164)
Total net long-term deferred income tax assets	$ 1.997	$ 1,974
Net long-term deferred income tax liabilities	$ 5.711	$ 4,827
Current Deferred Income Tax Liabilities		
Total current deferred income tax liabilities	$ 175	$ 117
Current Deferred Income Tax Assets		
Business restructuring	$ 225	$ 249
Net operating loss/credit carryforwards	5	3
Employee pensions and other benefits	304	523
Reserves and allowances	629	594
Other	264	14
Total net current deferred income tax assets	$ 1.427	$ 1.383
Net current deferred income tax assets	$ 1.252	$ 1.266

At December 31, 1997, we had net operating loss carry forwards (tax-effected) for federal and state income tax purposes of $32 and $76, respectively, expiring through 2012. We also had foreign net operating loss carryforwards (tax-effected) of $140, of which $130 has no expiration date, with the balance expiring by the year 2002 as well as federal tax credit carryforwards of $30 which are not subject to expiration. We recorded a valuation allowance to reflect the estimated amount of deferred tax assets which, more likely than not, will not be realized.

8. Postretirement Benefits

Our benefit plans for retirees include health care benefits, life insurance coverage and telephone concessions. Postretirement contributions to trust funds are determined using the attained-age-normal cost method for health care benefits and the aggregate cost method for life insurance plans.

Immediately following the spin-off of Lucent on September 30, 1996, Lucent established separate postretirement benefit plans, and a share of the postretirement benefit obligations and postretirement benefit assets held in trust were transferred from AT&T to Lucent based on methods and assumptions that were agreed to by both companies. Adjustments to the estimated assets and postretirement benefit obligations that were transferred to Lucent were not material in 1997. Subsequent adjustments, if any, are also expected to be immaterial.

This table shows the components of the net postretirement benefit cost:

For the Years Ended December 31	1997	1996	1995
Service cost – benefits earned during the period	$ 56	$ 53	$ 40
Interest cost on accumulated postretirement benefit obligation	278	263	258
Expected return on plan assets*	(120)	(99)	(78)
Amortization of unrecognized prior service costs	39	39	23
Amortization of net loss(gain)	–	3	(3)
Net postretirement benefit cost	$ 253	$ 259	$ 240

* The actual return on plan assets was $358 in 1997, $313 in 1996 and $256 in 1995. The expected long-term rate of return on plan assets was 9.0% in 1997, 1996 and 1995.

Prior service costs are amortized primarily on a straight-line basis over the average remaining service period of active employees. We had approximately 40,400, 37,900 and 34,500 retirees as of December 31, 1997, 1996, and 1995, respectively.

Our plan assets consist primarily of listed stocks, corporate and governmental debt, cash and cash equivalents, and life insurance contracts. The following table shows the funded status of our postretirement benefit plans reconciled with the amounts recognized in the Consolidated Balance Sheets:

At December 31	1997	1996
Accumulated postretirement benefit obligation:		
Retirees	$ 2,655	$ 2,244
Fully eligible active plan participants	651	453
Other active plan participants	1,050	1,042
Total accumulated postretirement benefit obligation	4,356	3,739
Plan assets at fair value	1,969	1,566
Unfunded postretirement obligation	2,387	2,173
Less:		
Unrecognized prior service costs	166	206
Unrecognized net gain	(227)	(510)
Accrued postretirement benefit obligation	$ 2,448	$ 2,477

We made these assumptions in valuing our postretirement benefit obligation at December 31:

	1997	1996
Weighted-average discount rate	7.0 %	7.5 %
Assumed rate of increase in the per capita cost of covered health care benefits	5.3 %	5.6 %

We assumed that the growth in the per capita cost of covered health care benefits (the health care cost trend rate) would gradually decline after 1997 to 4.8% by the year 2008 and then remain level. This assumption greatly affects the amounts reported. To illustrate, increasing the assumed trend rate by 1% in each year would raise our accumulated postretirement benefit obligation at December 31, 1997, by $218 and our 1997 postretirement benefit costs by $18.

9. Employee Benefit Plans

Pension Plans

We sponsor noncontributory defined benefit plans covering the majority of our employees. Benefits for management employees are principally based on career-average pay. Benefits for occupational employees are not directly related to pay. Pension contributions are principally determined using the aggregate cost method and are primarily made to trust funds held for the sole benefit of plan participants.

Immediately following the spin-off of Lucent on September 30, 1996, Lucent established separate defined benefit plans, and a share of the pension obligations and pension assets held in trust were transferred from AT&T to Lucent based on methods and assumptions that were agreed to by both companies. Adjustments to the estimated asset and pension obligation amounts that were transferred to Lucent were not material in 1997. Subsequent adjustments, if any, are also expected to be immaterial.

We compute pension cost using the projected unit credit method and assumed a long-term rate of return on plan assets of 9.0% in 1997, 1996 and 1995.

Pension cost includes the following components:

For the Years Ended December 31	1997	1996	1995
Service cost – benefits earned during the period	$ 305	$ 295	$ 200
Interest cost on projected benefit obligation	946	861	747
Amortization of unrecognized prior service costs	114	99	90
Credit for expected return on plan assets*	(1,371)	(1,195)	(1,043)
Amortization of transition asset	(181)	(183)	(193)
Charges for special pension benefits	5	–	58
Net pension credit	$ (182)	$ (123)	$ (141)

* The actual return on plan assets was $3,464 in 1997, $2,981 in 1996 and $1,044 in 1995.

The net pension credit in 1995 includes a one-time charge of $58 for early retirement options and curtailments.

This table shows the funded status of the defined benefit plans:

At December 31	1997	1996
Actuarial present value of accumulated benefit obligation, including vested benefits of $13,123 and $10,083	$ 14,150	$ 11,520
Plan assets at fair value	$ 20,513	$ 17,680
Less: Actuarial present value of projected benefit obligation	14,481	12,380
Excess of assets over projected benefit obligation	6,032	5,300
Unrecognized prior service costs	904	766
Unrecognized transition asset	(708)	(889)
Unrecognized net gain	(4,130)	(3,303)
Net minimum liability of nonqualified plans	(103)	(51)
Prepaid pension costs	$ 1,995	$ 1,823

We used these rates and assumptions to calculate the projected benefit obligation:

At December 31	1997	1996
Weighted-average discount rate	7.0 %	7.5 %
Rate of increase in future compensation levels	4.5 %	5.0 %

The prepaid pension costs shown above are net of pension liabilities for plans where accumulated plan benefits exceed assets. Such liabilities, that are not material, are included in other liabilities in the Consolidated Balance Sheets.

We are amortizing over 15.9 years the unrecognized transition asset related to our 1986 adoption of SFAS No. 87, "Employers' Accounting for Pensions." We amortize prior service costs primarily on a straight-line basis over the average remaining service period of active employees. Our plan assets consist primarily of listed stocks (including $75 and $56 of AT&T common stock at December 31, 1997, and 1996, respectively), corporate and governmental debt, real estate investments and cash and cash equivalents.

Savings Plans

We sponsor savings plans for the majority of our employees. The plans allow employees to contribute a portion of their pretax and/or after-tax income in accordance with specified guidelines. We match a percentage of the employee contributions up to certain limits. Our contributions amounted to $197 in 1997, $178 in 1996 and $156 in 1995.

10. Stock-Based Compensation Plans

Under the 1997 Long-Term Incentive Program, which was effective June 1, 1997, we grant stock options, performance shares, restricted stock and other awards. There are 100 million shares of common stock available for grant with a maximum of 15 million common shares that may be used for awards other than stock options. The exercise price of any stock option is equal to the stock price when the option is granted. Generally, the options vest over three years and are exercisable up to ten years from the date of grant. Under the 1987 Long-Term Incentive Program, which expired in April 1997, we granted the same awards, and on January 1 of each year 0.6% of the outstanding shares of our common stock became available for grant.

Under the 1997 Long-Term Incentive Program, performance share units are awarded to key employees in the form of either common stock or cash at the end of a three-year period based on AT&T's total shareholder return as measured against a peer group of industry competitors. Under the 1987 Long-Term Incentive Program, performance share units with the same terms were also awarded to key employees based on AT&T's return-to-equity performance compared with a target.

On August 1, 1997, substantially all of our employees were granted a stock option award to purchase 100 shares representing a total of 12.5 million shares of our common stock. The options vest after three years and are exercisable up to ten years from the grant date.

Under the AT&T 1996 Employee Stock Purchase Plan (Plan), which was effective July 1, 1996, we are authorized to issue up to 50 million shares of common stock to our eligible employees. Under the terms of the Plan, employees may have up to 10% of their earnings withheld to purchase AT&T's common stock. The purchase price of the stock on the date of exercise is 85% of the average high and low sale prices of shares on the New York Stock Exchange for that day. Under the Plan, we sold approximately 3 million shares to employees in both 1997 and 1996.

We apply Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," and related Interpretations in accounting for our plans. Accordingly, no compensation expense has been recognized for our stock-based compensation plans other than for our performance-based and restricted stock awards, SARs, and prior to July 1, 1996, for the stock purchase plan for former McCaw Cellular Communications, Inc. employees. Compensation costs charged against income were $94 and $40 in 1997 and 1996, respectively.

A summary of option transactions is shown below:

Shares in Thousands	1997	Weighted-Average Exercise Price	1996	Weighted-Average Exercise Price	1995
Outstanding at January 1	46,910	$33.89	47,689	$43.21	40,285
Lucent and NCR spin-off adjustments	–	–	22,678	–	–
Options granted	36,485	$38.81	9,132	$45.53	13,276
Options and SARs exercised	(10,832)	$24.89	(10,708)	$19.16	(8,181)
Average exercise price					$29.39
Options assumed in purchase of LIN	–	–	–	–	3,382
Options canceled or forfeited:					
Lucent and NCR spin-offs	–	–	(16,179)	$37.25	–
Other employee plans	(4,058)	$40.47	(5,702)	$37.12	(1,073)
At December 31:					
Options outstanding	68,505	$37.50	46,910	$33.89	47,689
Average exercise price					$43.21
Options exercisable	22,981	$33.26	28,034	$28.81	28,775
Shares available for grant	85,859	–	19,693	–	17,524

Effective on the dates of spin-off of Lucent and NCR, AT&T stock options held by Lucent and NCR employees were canceled. For the holders of unexercised AT&T stock options, the number of options was adjusted and all exercise prices were decreased immediately following each spin-off date to preserve the economic values of the options that existed prior to those dates.

During 1997 402,057 SARs were exercised and no SARs were granted. At December 31, 1997, 341,783 SARs remained unexercised, all of which were exercisable.

AT&T has adopted the disclosure-only provisions of SFAS No. 123, "Accounting for Stock-Based Compensation." If AT&T had elected to recognize compensation costs based on the fair value at the date of grant for awards in 1997, 1996 and 1995, consistent with the provisions of SFAS No. 123, AT&T's net income and earnings per common share would have been reduced to the following pro forma amounts:

For the Years Ended December 31	1997	1996	1995
Income from continuing operations	$ 4,384	$ 5,502	$ 3,022
Income(loss) from discontinued operations	99	146	(2,902)
Gain on sale of discontinued operations	66	162	–
Net income	$ 4,549	$ 5,810	$ 120
Earnings per common share – basic:			
Continuing operations	$ 2.70	$ 3.42	$ 1.91
Discontinued operations	0.06	0.09	(1.83)
Gain on sale of discontinued operations	0.04	0.10	–
Net income	$ 2.80	$ 3.61	$ 0.08
Earnings per common share – diluted:			
Continuing operations	$ 2.69	$ 3.41	$ 1.90
Discontinued operations	0.06	0.09	(1.82)
Gain on sale of discontinued operations	0.04	0.10	–
Net income	$ 2.79	$ 3.60	$ 0.08

Without the effect of pro forma costs related to the conversion of options in the Lucent and NCR spin-offs, pro forma income from continuing operations was $5,532, or $3.42 per diluted common share in 1996.

The pro forma effect on net income for 1997, 1996 and 1995 may not be representative of the pro forma effect on net income of future years because the SFAS No. 123 method of accounting for pro forma compensation expense has not been applied to options granted prior to January 1, 1995.

The weighted-average fair values at date of grant for options granted during 1997, 1996 and 1995 were $9.09, $13.12 and $14.02, respectively, and were estimated using the Black-Scholes option-pricing model. The risk-free interest rates applied for 1997, 1996 and 1995 were 6.16%, 6.11% and 6.44%, respectively. The following assumptions were applied for periods before the Lucent spin-off, subsequent to the Lucent spin-off through December 31, 1996, and for 1997, respectively: (i) expected dividend yields of 2.4%, 2.8% and 2.2%, (ii) expected volatility rates of 19.0%, 21.0% and 21.8%, and (iii) expected lives of 5.0, 4.5 and 4.5 years.

The following table summarizes information about stock options outstanding at December 31, 1997:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding at Dec. 31, 1997 (in thousands)	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number Exercisable at Dec. 31, 1997 (in thousands)	Weighted-Average Exercise Price
$ 1.11 – $15.76	318	1.9	$ 13.64	318	$ 13.64
15.83 – 27.12	6,611	3.5	24.40	6,611	24.40
27.16 – 34.95	7,890	6.4	34.16	5,088	24.50
35.20 – 36.74	6,207	5.7	35.61	4,495	35.54
36.75	12,501	9.4	36.75	–	36.75
36.76 – 39.30	4,229	6.0	37.41	3,304	37.20
39.31	17,810	9.0	39.31	22	39.31
39.32 – 47.37	11,813	7.6	45.15	3,143	45.19
48.28 – 60.00	1,126	9.9	54.58	–	–
	68,505	7.5	$ 37.50	22,981	$ 33.26

11. Debt Obligations

Debt Maturing Within One Year

At December 31	1997	1996
Commercial paper	$ 3,113	$ 1,950
Currently maturing long-term debt	874	463
Other	11	36
Total debt maturing within one year	$ 3,998	$ 2,449
Weighted-average interest rate of short-term debt	5.8%	5.5 %

A consortium of lenders provides revolving credit facilities of $5.0 billion to AT&T. These credit facilities are intended for general corporate purposes, which include support for AT&T's commercial paper, and were unused at December 31, 1997.

Long-Term Obligations

At December 31		1997	1996
Interest Rates (a)	Maturities		
Debentures			
4 3/8% to 4 3/4%	1998-1999	$ 500	$ 500
5 1/8% to 6%	2000-2001	500	500
8 1/8% to 8 5/8%	2002-2031	1,996	1,996
Notes			
5 9/32% to 7 3/4%	1998-2025	4,000	4,341
8% to 8 17/20%	1998-2025	579	786
9 3/5% to 12 7/8%	1998-2004	30	60
Variable rate	1998-2054	67	115
Total debentures and notes		7,672	8,298
Other		83	112
Less: Unamortized discount – net		55	64
Total long-term obligations		7,700	8,346
Less: Currently maturing long-term debt		874	463
Net long-term obligations		$ 6,826	$ 7,883

(a) Note that the actual interest paid on our debt obligations may have differed from the stated amount due to our entering into interest rate swap contracts to manage our exposure to interest rate risk and our strategy to reduce finance costs.

This table shows the maturities at December 31, 1997, of the $7,700 in total long-term obligations:

1998	1999	2000	2001	2002	Later Years
$ 874	$1,063	$ 658	$ 657	$ 504	$3,944

12. Financial Instruments

In the normal course of business we use various financial instruments, including derivative financial instruments, for purposes other than trading. We do not use derivative financial instruments for speculative purposes. These instruments include letters of credit, guarantees of debt, interest rate swap agreements and foreign currency exchange contracts. Interest rate swap agreements and foreign currency exchange contracts are used to mitigate interest rate and foreign currency exposures. Collateral is generally not required for these types of instruments.

By their nature all such instruments involve risk, including the credit risk of nonperformance by counterparties, and our maximum potential loss may exceed the amount recognized in our balance sheet. However, at December 31, 1997, and 1996, in management's opinion there was no significant risk of loss in the event of nonperformance of the counterparties to these financial instruments. We control our exposure to credit risk through credit approvals, credit limits and monitoring procedures. We do not have any significant exposure to any individual customer or counterparty, nor do we have any major concentration of credit risk related to any financial instruments.

Letters of Credit

Letters of credit are purchased guarantees that ensure our performance or payment to third parties in accordance with specified terms and conditions and do not create any additional risk to AT&T.

Guarantees of Debt

From time to time we guarantee the debt of our subsidiaries and certain unconsolidated joint ventures. Additionally, in connection with restructurings of AT&T in 1996, we issued guarantees for certain debt obligations of AT&T Capital and NCR. At December 31, 1997, and 1996, respectively, the amount of guaranteed debt associated with AT&T Capital and NCR was $120 and $230.

Interest Rate Swap Agreements

We enter into interest rate swaps to manage our exposure to changes in interest rates and to lower our overall costs of financing. We enter into swap agreements to manage the fixed/floating mix of our debt portfolio in order to reduce aggregate risk to interest rate movements. Interest rate swaps also allow us to raise funds at floating rates and effectively swap them into fixed rates that are lower than those available to us if fixed-rate borrowings were made directly. These agreements involve the exchange of floating-rate for fixed-rate payments or fixed-rate for floating-rate payments without the exchange of the underlying principal amount. Fixed interest rate payments at December 31, 1997, are at rates ranging from 6.96% to 7.75%. Floating-rate payments are based on rates tied to LIBOR.

The following table indicates the types of swaps in use at December 31, 1997, and 1996, and their weighted-average interest rates. Average variable rates are those in effect at the reporting date and may change significantly over the lives of the contracts.

	1997	1996
Fixed to variable swaps – notional amount	$ 422	$ 632
Average receive rate	7.54 %	7.55 %
Average pay rate	5.67 %	5.32 %
Variable to fixed swaps – notional amount	$ 249	$ 351
Average receive rate	5.70 %	5.77 %
Average pay rate	7.42 %	5.71 %

The weighted-average remaining terms of the swap contracts are 3 years for 1997 and 5 years for 1996.

Foreign Exchange

We enter into foreign currency exchange contracts, including forward and option contracts, to manage our exposure to changes in currency exchange rates, principally French francs, Deutsche marks, British pounds sterling and Japanese yen. The use of these derivative financial instruments allows us to reduce our exposure to the risk of adverse changes in exchange rates on the eventual reimbursement to foreign telephone companies for their portion of the revenues billed by AT&T for calls placed in the U.S. to a foreign country and other foreign currency payables and receivables. These transactions are generally expected to occur in less than one year.

Fair Values of Financial Instruments Including Derivative Financial Instruments

The following table summarizes the notional amounts of material financial instruments. The notional amounts represent agreed-upon amounts on which calculations of dollars to be exchanged are based. They do not represent amounts exchanged by the parties and, therefore, are not a measure of our exposure. Our exposure is limited to the fair value of the contracts with a positive fair value plus interest receivable, if any, at the reporting date.

Derivatives and Off Balance Sheet Instruments

	1997 Contract/ Notional Amount	1996 Contract/ Notional Amount
Interest rate swap agreements	$ 671	$ 983
Foreign exchange:		
Forward contracts	426	646
Option contracts	2	65
Letters of credit	63	264
Guarantees of debt	242	328

The tables below show the valuation methods and the carrying amounts and estimated fair values of material financial instruments.

Financial Instrument	Valuation Method
Debt excluding capital leases	Market quotes or based on rates available to us for debt with similar terms and maturities
Letters of credit	Fees paid to obtain the obligations
Guarantees of debt	There are no quoted market prices for similar agreements available
Interest rate swap agreements	Market quotes obtained from dealers
Foreign exchange contracts	Market quotes

For debt excluding capital leases, the carrying amounts and fair values were $10,810 and $11,112, respectively, for 1997; and $10,319 and $10,609, respectively, for 1996.

Derivatives and Off Balance Sheet Instruments

	1997			
	Carrying Amount		Fair Value	
	Asset	Liability	Asset	Liability
Interest rate swap agreements	$ 3	$10	$ 5	$31
Foreign exchange forward contracts	–	21	3	33

	1996			
	Carrying Amount		Fair Value	
	Asset	Liability	Asset	Liability
Interest rate swap agreements	$ 5	$ 8	$47	$12
Foreign exchange forward contracts	6	15	7	35

13. Commitments and Contingencies

In the normal course of business we are subject to proceedings, lawsuits and other claims, including proceedings under laws and regulations related to environmental and other matters. Such matters are subject to many uncertainties and outcomes are not predictable with assurance. Consequently, we are unable to ascertain the ultimate aggregate amount of monetary liability or financial impact with respect to these matters at December 31, 1997. These matters could affect the operating results of any one quarter when resolved in future periods. However, we believe that after final disposition any monetary liability or financial impact to us beyond that provided for at year-end would not be material to our annual consolidated financial statements.

We lease land, buildings and equipment through contracts that expire in various years through 2032. Our rental expense under operating leases was $822 in 1997, $718 in 1996 and $653 in 1995. The following table shows our future minimum lease payments due under noncancelable operating leases at December 31, 1997. Such payments total $3,384. The total of minimum rentals to be received in the future under noncancelable subleases as of December 31, 1997, was $275.

1998	1999	2000	2001	2002	Later Years
$ 652	$ 528	$ 444	$ 334	$ 249	$1,177

14. Quarterly Information (Unaudited)

	1997				1996			
	First	Second	Third	Fourth	First	Second	Third	Fourth
Revenues	$12,662	$12,825	$13,004	$12,828	$12,378	$12,459	$12,837	$12,872
Operating income	1,639	1,511	1,775	2,043	2,369	2,273	2,211	1,910
Income from continuing operations	1,088	928	1,133	1,323	1,439	1,509	1,380	1,245
Income(loss) from discontinued operations	38	31	20	11	(77)	(18)	52	216
Gain on sale of discontinued operations	–	–	66	–	–	–	–	162
Net income	1,126	959	1,219	1,334	1,362	1,491	1,432	1,623
Income(loss) per common share – basic:								
Continuing operations	$ .67	$ .57	$ .70	$ .81	$ .90	$ .94	$ .85	$ .77
Discontinued operations	.02	.02	.01	.01	(.05)	(.01)	.04	.13
Gain on sale of discontinued operations	–	–	.04	–	–	–	–	.10
Net income	.69	.59	.75	.82	.85	.93	.89	1.00
Income(loss) per common share – diluted:								
Continuing operations	$ .67	$ .57	$ .69	$ .81	$ .90	$ .93	$ .85	$ .77
Discontinued operations	.02	.02	.02	–	(.05)	(.01)	.04	.13
Gain on sale of discontinued operations	–	–	.04	–	–	–	–	.10
Net income	.69	.59	.75	.81	.85	.92	.89	1.00
Dividends declared	$ .33	$ .33	$ .33	$ .33	$ .33	$ .33	$ .33	$ .33
Stock price*:								
High	$ 41 7/8	$ 38 1/4	$ 45 15/16	$ 63 15/16	$ 68 7/8	$ 64 7/8	$ 62 3/8	$ 44 1/2
Low	34 3/8	30 3/4	34 1/4	43 3/16	60 1/8	58	49 1/4	33 1/4
Quarter-end close	34 7/8	35 1/16	44 1/4	61 5/16	61 1/8	62	52 1/4	43 3/8

* Stock prices obtained from the Composite Tape

Stock prices on or before September 30, 1996, have not been restated to reflect the Lucent spin-off. Stock prices on or before December 31, 1996, have not been restated to reflect the NCR spin-off.

15. Subsequent Event

On January 8, 1998, AT&T signed a definitive merger agreement with Teleport Communications Group Inc. (TCG) for an all-stock transaction valued at approximately $11.3 billion. Under the agreement each TCG share will be exchanged for .943 of an AT&T share. The merger is subject to regulatory approvals and certain other conditions as well as the receipt of opinions that the merger will be tax-free to TCG shareowners. The transaction is expected to close in the second half of 1998.

Corporate Information

Corporate Headquarters

AT&T Corp.
32 Avenue of the Americas
New York, NY 10013-2412

Shareowner Services

AT&T assists shareowners with a wide variety of stock-related matters through our transfer agent, Boston EquiServe Trust Company, N.A., including:

- Change of address
- Dividend reinvestment
- Direct deposit of dividends
- Transfer of ownership

Mailing Address:

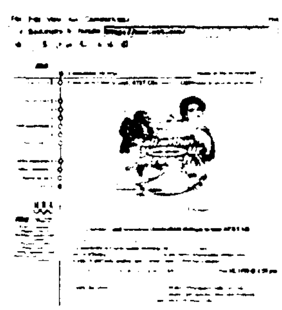
AT&T Shareowner Services
c/o Boston EquiServe
P.O. Box 8035
Boston, MA 02266-8035

Interactive voice response system (24 hours a day, seven days a week; representatives available Monday through Friday from 8 a.m. to 7 p.m. Eastern time):

Phone: 1-800-348-8288
TDD: 1-800-822-2794
Outside the United States: Call collect at 781-575-3777

E-mail: att@equiserve.com
Fax: 781-828-8813

The AT&T home page – **http://www.att.com/** – is your entry point for a vast array of information about AT&T, including company news and history, details on products and services, demonstrations of advanced technologies and more.



In addition, we just redesigned AT&T's Investor Relations Web site – **http://www.att.com/ir/** – giving it a new look, easier navigation and more links to other portions of AT&T's overall Web site. The site now has real-time information from events relevant to shareowners and the financial community, a more intuitive user interface, downloadable financial data and availability of online transactions, including ordering of printed information.

AT&T (ticker symbol "T") is listed on the New York Stock Exchange, as well as on the Boston, Midwest, Pacific and Philadelphia exchanges in the United States, and on stock exchanges in Brussels, London, Paris and Geneva.

As of December 31, 1997, AT&T had 1,624,213,505 outstanding shares, held by more than 3.5 million shareowners.

The 113th Annual Meeting of Shareowners will convene at 9:30 a.m. at the Meadowlands Exposition Center in Secaucus, New Jersey, on Wednesday, May 20, 1998.

Other Publications

The Form 10-K Annual Report and Form 10-Q Quarterly Reports to the Securities and Exchange Commission are available without charge by contacting Boston EquiServe and through the AT&T Investor Relations Web site (see earlier information).

Also available are:

AT&T Foundation Biennial Report
32 Avenue of the Americas
24th Floor
New York, NY 10013

AT&T Environment, Health & Safety Report
Department AR
20 Independence Blvd.
Room 4B31
Warren, NJ 07059

AT&T Foundation

In 1997, the AT&T Foundation donated nearly $40 million to non-profit organizations in local communities to support education, health, culture and the environment. Over $10 million of these grants helped to connect elementary and secondary schools to the Information Superhighway through the AT&T Learning Network.

Telephone Pioneers of America

The Telephone Pioneers of America is a nonprofit organization of more than 800,000 active and retired employee volunteers from sponsoring companies within the telecommunications industry, including AT&T. In recent years, the Pioneers have contributed an average of 30 million hours annually and raised between $25 million and $30 million to address such needs as the environment and health and human services, with an overarching focus on education.

As part of AT&T's Minority and Women's Business Enterprise (MWBE) Business Development Program, more than $1 billion of AT&T's total purchases last year were made from minority- and women-owned businesses.

AT&T is dedicated to creating a safe and healthy workplace for AT&T people, supporting the business, protecting the environment and maintaining AT&T's strong reputation as one of the top corporate environmental champions. AT&T won the 1997 National Environmental Education Achievement Award in recognition of innovative and effective environmental education programs that meaningfully connect people and their environments, and support corporate profitability. More information is available online at: **http://www.att.com/ehs/**.

The text on the cover, inside front cover and page 1 of this annual report consists of excerpts from independent news reports about the communications industry from 1997 and early 1998. The statements do not necessarily reflect the views of AT&T, nor does their use represent any endorsement of AT&T products and services.

This annual report is printed on recycled paper containing a minimum of 10% de-inked post-consumer fiber. Please recycle.

AT&T. *It's all within your reach.*®

Board of Directors and Senior Management

AT&T Board of Directors

C. Michael Armstrong, 59
Chairman of the Board and
Chief Executive Officer of AT&T
since November 1997. 4.6

Kenneth T. Derr, 61
Chairman and
Chief Executive Officer,
Chevron Corporation,
an international oil company.
Director since 1995. 1.2

M. Kathryn Eickhoff, 58
President,
Eickhoff Economics Inc.,
economic consultants.
Elected to Board in 1987. [illegible]

[illegible] Elisha, 65
Chairman and
Chief Executive Officer,
Springs Industries, Inc.,
a textile manufacturer.
Director since 1987. 3.5

George M. C. Fisher, 57
Chairman and
Chief Executive Officer,
Eastman Kodak Company,
an imaging company.
Elected to Board in 1997. 2.5

Donald V. Fites, 63
Chairman and
Chief Executive Officer,
Caterpillar, Inc., an
equipment manufacturer.
Director since 1997. 3.5

Ralph S. Larsen, 59
Chairman and
Chief Executive Officer,
Johnson & Johnson, a
pharmaceutical, medical and
consumer products company.
Elected to Board in 1995. 1.5

Donald F. McHenry, 61
President, IRC Group,
international relations
consultants, and former
U.S. Ambassador to the
United Nations.
Director since 1986. 1.2.3.4

Michael I. Sovern, 66
President Emeritus and
Chancellor Kent Professor
of Law at Columbia University.
Elected to Board in 1984. 1.2.4.6

Thomas H. Wyman, 68
Senior Advisor of
SBC Warburg Inc., and
Retired Chairman of
S.G. Warburg & Co. Inc.,
an investment banking firm.
Director since 1981. 2.3.4.6

John D. Zeglis, 50
President of AT&T.
Elected to Board in 1997. 3

1. Audit Committee
2. Compensation and Employee Benefits Committee
3. Directors and Public Policy Committee
4. *Executive Committee*
5. Finance Committee
6. Proxy Committee

Ages are as of January 1, 1998.

AT&T Senior Management Staff

[illegible]
Chairman of the Board and
Chief Executive Officer 1

Executive Vice President
International

Vice President and
General Manager
Local Services Division

Executive Vice President
Human Resources

Executive Vice President
AT&T & President and
Chief Executive Officer
AT&T Wireless Services

Executive Vice President
Network & Computing Services
& AT&T Chief Quality Officer 1

Jim G. Kilpatric*
General Counsel &
Executive Vice President

Marilyn Laurie*
Executive Vice President
Brand Strategy & Marketing
Communications

Richard J. [illegible]
Executive Vice President
Public Relations & Employee
Communications

Gail J. McGovern
Executive Vice President
Consumer Markets Division 1

[illegible]
President
AT&T Labs

John C. Petrillo
Executive Vice President
Corporate Strategy &
Business Development 1

Richard R. Roscitt
Executive Vice President
AT&T & President and
Chief Executive Officer
AT&T Solutions

[illegible] E. Somers
Senior Executive Vice President &
Chief Financial Officer 1

[illegible] D. Zeglis
President 1

1. Member of Operations Group

* *Our special thanks and best wishes to Jim Kilpatric and Marilyn Laurie, who will retire in April 1998.*

Other Officers

[illegible] M. Dwyer
Vice President and Treasurer

Maureen B. Tart
Vice President and Controller

Marilyn J. Wasser
Vice President
Law and Secretary

FORM 10-K

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

(X) ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For The Fiscal Year Ended December 31, 1997

OR

( ) TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For The Transition Period From _________ to _________

Commission File Number 1-1105

AT&T CORP.

A NEW YORK CORPORATION	I.R.S. EMPLOYER NO. 13-4924710

32 Avenue of the Americas, New York, New York 10013-2412

Telephone Number 212-387-5400

Securities registered pursuant to Section 12(b) of the Act: See attached SCHEDULE A.

Securities registered pursuant to Section 12(g) of the Act: None.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes....x.... No........

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ( )

At February 28, 1998, the aggregate market value of the voting stock held by non-affiliates was $98,828,206,879.

At February 28, 1998, 1,620,390,922 common shares were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

(1) Portions of the registrant's annual report to shareholders for the year ended December 31, 1997 (Part II)

(2) Portions of the registrant's definitive proxy statement dated March 26, 1998, issued in connection with the annual meeting of shareholders (Part III)

SCHEDULE A

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Shares (Par Value $1 Per Share)	New York, Boston, Chicago, Philadelphia and Pacific Stock Exchanges
Thirty-Seven Year 4-3/4% Debentures, due June 1, 1998	New York Stock Exchange
Thirty-Six Year 4-3/8% Debentures, due May 1, 1999	
Thirty-Three Year 6% Debentures, due August 1, 2000	
Thirty-Five Year 5-1/8% Debentures, due April 1, 2001	
Ten Year 7-1/8% Notes, due January 15, 2002	
Ten Year 6-3/4% Notes, due April 1, 2004	
Ten Year 7% Notes, due May 15, 2005	
Twelve Year 7-1/2% Notes, due June 1, 2006	
Twelve Year 7-3/4% Notes, due March 1, 2007	
Thirty Year 8-1/8% Debentures, due January 15, 2022	
Medium Term Note 8.2%, due February 15, 2005	
Thirty Year 8.35% Debentures, due January 15, 2025	
Thirty-Two Year 8-1/8% Debentures, due July 15, 2024	
Forty Year 8-5/8% Debentures, due December 1, 2031	

TABLE OF CONTENTS

PART I

PART II

Description

PART III

Description

PART IV

Description

See page 12 for "Executive Officers of the Registrant."

PART I

ITEM 1. BUSINESS.

GENERAL

AT&T Corp. ("AT&T" or the "Company") was incorporated in 1885 under the laws of the State of New York and has its principal executive offices at 32 Avenue of the Americas, New York, New York 10013-2412 (telephone number 212-387-5400). Internet users can access information about AT&T and its services at http://www.att.com.

AT&T is among the world's communications leaders, providing voice, data and video telecommunications services to large and small businesses, consumers and government entities. AT&T and its subsidiaries furnish regional, domestic, international and local communication services. AT&T's wholly owned subsidiaries, including AT&T Wireless Services, Inc., provide cellular telephone and other wireless services. AT&T also provides billing, directory, and calling card services to support its communications business.

DEVELOPMENT OF BUSINESS

During 1996 AT&T separated its business into three publicly held stand-alone companies: the current AT&T, focused on communication and information services, Lucent Technologies Inc. ("Lucent") focused on communications systems and technology and NCR Corporation ("NCR") focused on transaction-intensive computing. AT&T distributed to its shareowners all of the shares AT&T owned of Lucent on September 30, 1996 and all of the shares of NCR on December 31, 1996.

Following the separation, AT&T has focused on its core business and disposed of assets and businesses that were not strategic. In October 1996, AT&T completed the sale of its majority interest in AT&T Capital Corporation (leasing services business) in which AT&T received $1.8 billion in cash. In 1997, AT&T completed the sales of AT&T Skynet (satellite services), AT&T Tridom (satellite data and video communications services) and its submarine systems business. In addition, AT&T sold its investments in DirectTV (direct-broadcast television service and DSS equipment business) and decreased its investment in Smartone Communications (a wireless joint venture in Hong Kong).

In addition, in 1997, AT&T agreed to sell AT&T Universal Card Services, Inc.(credit card services business), American Transtech Inc. (customer care services), its investment in LIN Television Corporation (commercial television broadcasting) and WOOD-TV (AT&T's television station in Grand Rapids, Michigan).

On January 8, 1998, AT&T entered into a definitive merger agreement with Teleport Communications Group, Inc. ("TCG"). The merger with TCG, which remains subject to regulatory approvals and a number of other conditions, is expected to close mid to late 1998. Under the merger agreement, each share of TCG will be exchanged for .943 of an AT&T share in an all-stock transaction valued at the time at approximately $11.3 billion. TCG is the largest competitive local exchange carrier in the United States, with networks in operation or under construction in 66 U.S. markets as of December 31, 1997. As of September 30, 1997, TCG's local networks encompassed over 8,680 route miles, over 460,285 fiber miles, and 33 local digital voice switches. These local networks are aimed at addressing high-volume business customers. AT&T believes that the TCG merger will accelerate its ability to offer local services to business customers and, ultimately, to other customers.

LONG DISTANCE SERVICES

AT&T's communication and information services business addresses the needs of consumers, large and small businesses, the Federal government and state and local governments for voice, data and video telecommunications services. Business units within this group provide regular and custom long distance communications services, data transmission services, 500 services, toll-free or 800 and 888 services, 900 services, private line services, software defined network services ("SDN"), integrated services digital network ("ISDN") technology based services, and electronic mail, electronic data interchanges and enhanced facsimile services.

AT&T also provides special long distance services, including AT&T Calling Card services, special calling plans and the Company's domestic and international operator services. AT&T provides communications services internationally, including transaction services, global networks, network management and value added network services (i.e., services offered over communications transmission facilities that employ computer processing applications).

AT&T provides interstate and intrastate long distance telecommunications services throughout the continental United States and provides, or joins in providing with other carriers, telecommunications services to and from Alaska, Hawaii, Puerto Rico and the Virgin Islands and international telecommunications services to and from virtually all nations and territories around the world.

In the continental United States, AT&T provides long distance telecommunications services over its own network. Virtually all switched services are computer controlled and digitally switched and interconnected by a packet switched signaling network. Transmission facilities consist of approximately 2 billion circuit-miles using lightwave, satellite, wire and coaxial cable and microwave radio technology. International telecommunications services are provided via multiple international transoceanic submarine cable (primarily lightwave) systems and via international satellite and radio facilities.

WIRELESS SERVICES

AT&T is one of the world's largest wireless service providers. In the United States, AT&T holds licenses to operate systems providing 850 Mhz broadband wireless services covering markets with a population of over 92 million nationwide and messaging and air-to-ground services throughout the country. The services provided by AT&T currently include cellular, voice and data, messaging and air-to-ground communications. As of December 1997, AT&T served over 6 million cellular subscribers.

In addition, AT&T has purchased (primarily in auctions conducted by the Federal Communications Commission ("FCC")) 1900 Mhz wireless broadband licenses covering markets with a population of over 112 million. AT&T is required by the FCC to provide adequate broadband PCS service to at least one-third of the population in its licensed areas within five years of being licensed and two-thirds of the population in its licensed areas within ten years of being licensed. The licenses are granted for ten year terms from the original date of issuance and may be renewed by AT&T by meeting the FCC's renewal criteria and upon compliance with the FCC's renewal procedures.

AT&T has created service clusters in major metropolitan areas and linked its and other service providers systems into a network which permits its wireless cellular subscribers to both place and receive calls anywhere they travel in areas served by the network, even if the local wireless telephone service is not provided by AT&T. AT&T is now integrating other communications technologies into the network. AT&T will continue to explore the use of emerging technologies to expand the reach of the network and to provide additional services (especially data and internet services).

AT&T also offers one-way messaging systems such as paging services. As of December 31, 1997, the Company had over 1.3 million messaging service subscribers. The majority of these subscribers are in locations where AT&T holds cellular licenses.

AT&T's wireless services are conducted primarily through subsidiaries of AT&T Wireless Services, Inc. (formerly McCaw Cellular Communications, Inc., which was merged with a special-purpose subsidiary of AT&T in September 1994).

LOCAL SERVICES

Following passage of the Telecommunications Act of 1996 (the "Telecommunications Act"), AT&T applied for permission to provide local service in all 50 states. As of December 31, 1997, AT&T had received authority to provide service in 48 states and the District of Columbia. As of December 31, 1997, AT&T offered AT&T Digital Link service for business customers on an outbound only basis in 48 states and on an inbound and outbound basis in one state. Also as of such date, AT&T offered resold local service to consumers in Alaska, California, Connecticut, Georgia, Illinois, Michigan, Texas and Rochester, New York as well as offering resold local service to small business customers in California and Connecticut.

Notwithstanding these efforts, AT&T has experienced significant difficulty in penetrating local markets. AT&T's ability to purchase combined network elements from incumbent local exchange carriers (ILECS), one of the primary methods by which AT&T intends to provide local service to residential and small business customers, was severely limited by, among other factors, regulatory and judicial actions and a lack of technical and operational interfaces necessary to order network elements from ILECs. In spite of strong demand, in the fourth quarter of 1997 AT&T stopped actively marketing resold local service to residential and small business customers in most of the areas in which it offered such service because of limitations on ILECs' ability to handle anticipated demand and because discounts AT&T receives from ILECs on the sale of such service are insufficient to make resale a viable long-term method of offering service. AT&T's ability to provide facilities-based local service to business customers through AT&T Digital Link service was also hampered by the inability to provide local number portability and other factors. AT&T will continue to pursue the development of alternative methods of local entry, which remains a key growth opportunity. See "Competition" and "Forward Looking Statements" for a discussion of the potential impact on AT&T of an inability to profitably provide local service.

AT&T SOLUTIONS

AT&T Solutions, Inc., established in 1995, provides outsourcing, consulting, networking integration and multimedia call center services. AT&T Solutions provides clients with customized information technology solutions to operate and manage voice, data and video services, including local and wide area networks, PBXs, voice-processing systems and voice and data terminals.

ONLINE SERVICES

AT&T also provides a variety of online and internet access services. These include AT&T WorldNet® Service, a service providing dedicated and dial-up access to the internet, AT&T Easy World Wide Web® Service, an internet web site creation and hosting service, custom web site hosting services, and AT&T

SecureBuy SM Service, an Internet transaction service that simplifies buying and selling on the Internet.

INTERNATIONAL

AT&T has established a number of international alliances to increase the reach and scope of AT&T's services and network over time and has invested in certain countries in order to increase the range of services AT&T offers in those countries. For example, AT&T founded the WorldPartners alliance in 1993 to provide multinational customers with seamless telecommunications and related services. As of the end of 1997, WorldPartners included 17 members who provide services to multinational customers in North America, Latin America, Europe, the Middle East and Asia. In addition, in 1996 AT&T began offering business and consumer services in the United Kingdom and in early 1997 AT&T's joint venture in Mexico, Alestra, began offering long distance service. AT&T also has an interest in several wireless communications companies outside of the United States, including cellular operators licensed to serve Hong Kong, Columbia, Taiwan and parts of India.

LEGISLATIVE AND REGULATORY DEVELOPMENTS

Telecommunications Act of 1996

In February 1996, the Telecommunications Act became law. The Telecommunications Act, among other things, was designed to foster local exchange competition by establishing a regulatory framework to govern new competitive entry in local and long distance telecommunications services. The Telecommunications Act will permit the Regional Bell Operating Companies ("RBOCs") to provide interexchange services originating in any state in its region after demonstrating to the FCC that such provision is in the public interest and satisfying the conditions for developing local competition established by the Telecommunications Act.

In August 1996, the FCC adopted rules and regulations, including pricing rules (the "Pricing Rules") to implement the local competition provisions of the Telecommunications Act, including with respect to the terms and conditions of interconnection with local exchange carrier ("LEC") networks and the standards governing the purchase of unbundled network elements and wholesale services from LECs. These implementing rules rely on state public utilities commissions to develop the specific rates and procedures applicable to particular states within the framework prescribed by the FCC.

On July 18, 1997, the United States Court of Appeals for the 8th Circuit issued a decision holding that the FCC lacks authority to establish pricing rules to implement the sections of the local competition provisions of the Telecommunications Act applicable to interconnection with LEC networks and the purchase of unbundled network elements and wholesale services from LECs. Accordingly, the Court vacated the rules that the FCC had adopted in August 1996, and which had been stayed by the Court since September 1996.

Absent effectiveness of the Pricing Rules, each state will determine the applicable rates and procedures independent of the framework established by the FCC. However, since the stay was issued, many states have used the Pricing Rules as guidelines in establishing permanent rates, or interim rates that will apply pending the determination of permanent rates in subsequent state proceedings. Nevertheless, there can be no assurance that the prices and other conditions established in each state will provide for effective local service entry and competition or provide AT&T with new market opportunities.

On October 14, 1997, the 8th Circuit Court of Appeals vacated an FCC Rule that had prohibited incumbent LECs from separating network elements that are combined in the LEC's network, except at the request of the competitor purchasing the elements. This decision could increase the difficulty and costs of providing competitive local service through the use of unbundled network elements purchased from the incumbent LECs.

On January 26, 1998, the United States Supreme Court agreed to review the aforementioned decisions of the Eighth Circuit Court of Appeals. Under the normal procedures of the Court, arguments are expected to be heard in October 1998, and a decision is expected sometime in the first half of 1999.

On December 31, 1997, the U.S. District Court for the Northern District of Texas issued a memorandum opinion and order holding that the Telecommunications Act's restrictions on the provision of in-region, interLATA service by the RBOCSs are unconstitutional. AT&T and other carriers (collectively, "intervenors") and the FCC filed prompt appeals with the United States Court of Appeals for the Fifth Circuit. On February 11, 1998, the District Court stayed the effectiveness of its December 31 memorandum opinion and order pending appeal.

The United States Court of Appeals for the Fifth Circuit will review the aforementioned decision of the U.S. District Court for the Northern District of Texas under an expedited briefing schedule, whereby oral arguments will be heard in July 1998. If the memorandum opinion and order is permitted to take effect, the Telecommunications Act's restrictions on the provision of in-region interLATA services will no longer apply to the plaintiffs in the case, SBC Communications, Inc., U S West, Inc. and Bell Atlantic Corporation.

Modification of Final Judgment of 1982

Prior to 1996, AT&T and the RBOCs were subject to the provisions of the Modification of Final Judgment of 1982 (the "MFJ") since its implementation. The Telecommunications Act effectively superseded future operation of the MFJ. Consequently, on April 11, 1996, Judge Harold Greene issued an order terminating the MFJ.

Regulation of Rates

AT&T is subject to the jurisdiction of the FCC with respect to interstate and international rates, lines and services, and other matters. From July 1989 to October 1995, the FCC regulated AT&T under a system known as "price caps" whereby AT&T's prices, rather than its earnings, were limited. On October 12, 1995, recognizing a decade of enormous change in the long distance market and finding that AT&T lacked market power in the interstate long distance market, the FCC reclassified AT&T as a "non-dominant" carrier for its domestic interstate services. As a result, AT&T became subject to the same regulations as its long distance competitors for such services. Thus, AT&T was no longer subject to price cap regulation for these services, was able to file tariffs that are presumed lawful on one day's notice, and was free of other regulations and reporting requirements that apply only to dominant carriers.

In addition, on October 31, 1996, the FCC issued an order that would have prohibited non-dominant carriers, including AT&T, from filing tariffs for their domestic interstate services. AT&T and other parties have filed an appeal of the FCC's order with the United States Court of Appeals for the D.C. Circuit. In February 1997, the D.C. Circuit stayed the effectiveness of the FCC's order pending appeal. Oral argument has not yet been scheduled. If the Court affirms the FCC's order and lifts the stay, non-dominant carriers, including AT&T, will have to utilize mechanisms other than tariffs to establish the terms and conditions that apply to domestic, interstate telecommunications services.

Furthermore, in May 1997, the FCC adopted three orders relating to Price Caps, Access Reform, and Universal Service that will result in substantial revisions to the level and structure of access charges that AT&T as a long distance carrier pays to incumbent LECs. AT&T has agreed to pass through to consumers any savings to AT&T as a result of access charge reform. AT&T began implementing these reductions July 15, 1997. Consequently, AT&T's results after June 1997 reflects lower revenue per minute of usage and lower access and other interconnection costs per minute of usage.

The Price Cap Order requires LECs to reduce their price cap indices by 6.5 percent annually, less an adjustment for inflation, which is likely to result in a reduction in the interstate access charges that long distance carriers, such as AT&T, pay to LECs. The Access Charge Reform Order restructured access charges so that certain costs that do not vary with usage will be recovered on a flat-rate basis and permitted increased flat-rate assessments on multiline business customers and on residential lines beyond the primary telephone line. This restructuring allows a reduction in access charges assessed on long distance carriers on a usage basis. Finally, the Universal Service Order (which represents an FCC mandated contribution to support schools and libraries and rural health care programs, high cost support and low income support mechanisms which are paid to the Universal Service Administrative Company) adopts a new mechanism for funding universal service which expands the set of carriers that must contribute to support universal service from only long-distance carriers to all carriers, including LECs, that provide interstate telecommunications services. Similarly, the set of carriers eligible for the universal service support has been expanded from only LECs to any eligible carrier providing local service to a customer, including AT&T as a new entrant in local markets. The Universal Service Order also adopted measures to provide discounts on telecommunications services, Internet access and inside wire to eligible schools and libraries and rural health carrier providers.

AT&T remains subject to the statutory requirements of Title II of the Communications Act. AT&T must offer service under rates, terms and conditions that are just, reasonable and not unreasonably discriminatory; it is subject to the FCC's complaint process, and it must give notice to the FCC and affected customers prior to discontinuance, reduction, or impairment of service. AT&T has also made certain commitments that address concerns that had been raised with regard to the potential impact of declaring AT&T to be non-dominant, including a three-year rate assurance for low income and low usage residential users and a three-year limit on, and 5 days advance notice for, rate increases on 800 directory assistance and analog private line services.

AT&T's international private line services have been classified as non-dominant for several years. AT&T's switched international services have become subject to increased competition, similar to its domestic services and on May 9, 1996, the FCC adopted an order reclassifying AT&T as a non-dominant carrier for such services. AT&T has made certain voluntary commitments that address issues raised in that proceeding, including commitments: (i) to maintain its annual average revenue per minute for international residential calls at or below the 1995 level through May 9, 1999, and in the event of a significant change that substantially raises AT&T's costs, to provide the FCC five business days notice prior to implementing rate increases that would raise the annual average revenue per minute for such calls above the 1995 level; and (ii) to maintain certain discount calling plans providing at least a 15% discount off basic pricing schedules until May 9, 1999. AT&T also made voluntary commitments relating to its operation of international cable facilities, its negotiation of settlement agreements with foreign carriers and its relationship with foreign partners.

In addition to the matters described above with respect to the Telecommunications Act, state public service commissions or similar authorities having regulatory power over intrastate rates, lines and services and other matters regulate AT&T's local and intrastate communications services. The system of regulation used in many states is rate-of-return regulation. In recent years, many states have adopted different systems of regulation, such as: complete removal of rate-of-return regulation, pricing flexibility rules, price caps and incentive regulation.

COMPETITION

AT&T currently faces significant competition in the communication and information services industry and expects that the level of competition will continue to increase. As competitive, regulatory and technological changes occur, including those occasioned by the Telecommunications Act, AT&T anticipates that new and different competitors will enter and expand their position in the communications services markets. These may include entrants from other segments of the communication and information services industry or global competitors seeking to expand their market opportunities. Many such new competitors are likely to enter with a strong market presence, well recognized names and pre-existing direct customer relationships.

The Telecommunications Act has already impacted the competitive environment. Anticipating changes in the industry, non-RBOC LECs, which are not required to implement the Telecommunications Act's competitive checklist prior to offering long distance in their home markets, have begun integrating their local service offerings with long distance offerings in advance of AT&T being able to offer combined local and long distance service in these areas, adversely affecting AT&T's revenues and earnings in these service regions.

In addition, the Telecommunications Act will permit RBOCs to provide interLATA interexchange services after demonstrating to the FCC that such provision is in the public interest and satisfying the conditions for developing local competition established by the Telecommunications Act. Three RBOCs have petitioned the FCC for permission to provide interLATA interexchange services in one or more states within their home market; to date the FCC has not granted any petition. To the extent that the RBOCs obtain in-region interLATA authority before the Telecommunications Act's checklist of conditions have been fully or satisfactorily implemented and adequate facilities-based local exchange competition exists, there is a substantial risk that AT&T and other interexchange service providers would be at a disadvantage to the RBOCs in providing both local service and combined service packages. Because it is widely anticipated that substantial numbers of long distance customers will seek to purchase local, interexchange and other services from a single carrier as part of a combined or full service package, any competitive disadvantage, inability to profitably provide local service at competitive rates or delays or limitations in providing local service or combined service packages
could adversely affect AT&T's future revenues and earnings. In any event, the simultaneous entrance of numerous new competitors for interexchange and combined service packages is likely to adversely affect AT&T's future long distance revenues and could adversely affect future earnings.

Furthermore, in February 1997, a General Agreement on Trade in Services (the "GATS") was reached under the World Trade Organization. The GATS, which became effective January 1, 1998, is designed to open each country's domestic telecommunications markets to foreign competitors. The GATS, and future trade agreements, may accelerate the entrance into the U.S. market of foreign telecommunications providers, certain of whom are likely to possess dominant home market positions in which there is not effective competition. The GATS may also permit AT&T's entrance into other markets as only a small number of countries refused to eliminate their foreign ownership restrictions.

In addition to the matters referred to above, various other factors, including market acceptance, start-up and ongoing costs associated with the provision of new services and local conditions and obstacles, could adversely affect the timing and success of AT&T's entrance into the local exchange services market and AT&T's ability to offer combined service packages that include local service.

FORWARD LOOKING STATEMENTS

Except for the historical statements and discussions contained herein, statements contained in this Report on Form 10-K constitute "forward looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Any Form 10-K, Annual Report to Shareholders, Form 10-Q or Form 8-K of AT&T may include forward looking statements. In addition, other written or oral statements which constitute forward looking statements have been made and may in the future be made by or on behalf of AT&T, including statements concerning future operating performance, AT&T's share of new and existing markets, AT&T's short- and long-term revenue and earnings growth rates, and general industry growth rates and AT&T's performance relative thereto. These forward looking statements rely on a number of assumptions concerning future events, including the outcome of litigation, the adoption and implementation of balanced and effective rules and regulations by the FCC and the state public regulatory agencies, and AT&T's ability to achieve a significant market penetration in new markets. These forward looking statements are subject to a number of uncertainties and other factors, many of which are outside AT&T's control, that could cause actual results to differ materially from such statements. These factors include, but are not limited to:

- the efficacy of the rules and regulations to be adopted by the FCC and state public regulatory agencies to implement the provisions of the Telecommunications Act; the outcome of litigation relative thereto; and the impact of regulatory changes relating to access reform and international settlement reform;

- the outcome of negotiations with LECs and state regulatory arbitrations and approvals with respect to interconnection agreements; and the ability to purchase unbundled network elements or wholesale services from LECs at a price sufficient to permit the profitable offering of local exchange service at competitive rates;

- success and market acceptance for new initiatives, many of which are untested; the level and timing of the growth and profitability of new initiatives, particularly local (consumer and business) service and business data service; start-up costs associated with entering new markets, including advertising and promotional efforts; successful deployment of new systems and applications to support new initiatives; and local conditions and obstacles;

- competitive pressures, including pricing pressures, technological developments, alternative routing developments, and the ability to offer combined service packages that include local service; the extent and pace at which different competitive environments develop for each segment of the telecommunications industry; the extent at and duration for which competitors from each segment of the telecommunications industry are able to offer combined or full service packages prior to AT&T being able to; and the degree to which AT&T experiences material competitive impacts to its traditional service offerings prior to achieving adequate local service entry;

- the availability, terms and deployment of capital; the impact of regulatory and competitive developments on capital outlays; the ability to achieve cost savings and realize productivity improvements; the ability to effectively integrate TCG's operations with AT&T; the ability to realize cost-saving and revenue synergies from the merger; and

- general economic conditions, government and regulatory policies, and business conditions in the communications industry.

Readers are cautioned not to put undue reliance on such forward looking statements. For a more detailed description of these and additional uncertainties and other factors that could cause actual results to differ materially from such forward looking statements, see "Results of Operations", "Financial Condition", "Regulatory and Legislative Developments", and "Competition" included in or incorporated by reference into this Form 10-K. As described elsewhere in this Form 10-K, these uncertainties and factors could adversely affect the timing and success of AT&T's entrance into the local exchange services market and AT&T's ability to offer combined service packages that include local service, thereby adversely affecting AT&T's future revenues and earnings. AT&T disclaims any intention or obligation to update or revise any forward looking statements, whether as a result of new information, future events or otherwise.

SEGMENT, OPERATING REVENUE AND RESEARCH AND DEVELOPMENT EXPENSE INFORMATION

For information about the Company's research and development expense, see Note 5 to the Consolidated Financial Statements. For information about the consolidated operating revenues contributed by the Company's major classes of products and services, see the revenue tables and descriptions on pages 28 through 30 and Consolidated Statements of Income on page 40 of the Company's annual report to shareholders for the year ended December 31, 1997. All such information is incorporated herein by reference pursuant to General Instruction G(2).

EMPLOYEE RELATIONS

At December 31, 1997 AT&T employed approximately 128,000 persons in its operations, approximately 122,000 of whom are located domestically. About 48% of the domestically located employees of AT&T are represented by unions. Of those so represented, about 96% are represented by the Communications Workers of America ("CWA"), which is affiliated with the AFL-CIO; about 4% by the International Brotherhood of Electrical Workers ("IBEW"), which is also affiliated with the AFL-CIO. In addition, there is a very small remainder of domestic employees represented by other unions. Labor agreements with most of these unions extend through May 1998.

ITEM 2. PROPERTIES.

The properties of AT&T consist primarily of plant and equipment used to provide long distance and wireless telecommunications services and administrative office buildings.

Telecommunications plant and equipment consists of: central office equipment, including switching and transmission equipment; connecting lines (cables, wires, poles, conduits, etc.); land and buildings; and miscellaneous properties (work equipment, furniture, plant under construction, etc.). The majority of the connecting lines are on or under public roads, highways and streets and international and territorial waters. The remainder are on or under private property. AT&T also operates a number of sales offices, customer care centers, and other facilities, such as research and development laboratories.

AT&T continues to manage the deployment and utilization of its assets in order to meet its global growth objectives while at the same time ensuring that these assets are generating economic value added for the shareholder. AT&T will continue to manage its asset base consistent with globalization initiatives, marketplace forces, productivity growth and technology change.

A substantial number of the administrative offices of AT&T are in leased buildings. Substantially all of the important long distance communications facilities are in buildings wholly owned by AT&T or in buildings owned partially by AT&T and partially by the regional holding companies created at divestiture. Many of the smaller facilities are in rented quarters. Most of the important buildings used in connection with long distance services are on land held in fee, but a few are on land held under long-term leases.

ITEM 3. LEGAL PROCEEDINGS.

In the normal course of business, AT&T is subject to proceedings, lawsuits and other claims, including proceedings under government laws and regulations related to environmental and other matters. Such matters are subject to many uncertainties and outcomes are not predictable with assurance. Consequently, AT&T is unable to ascertain the ultimate aggregate amount of monetary liability or financial impact with respect to these matters at December 31, 1997. While these matters could affect operating results of any one quarter when resolved in future periods, it is management's opinion that after final disposition, any monetary liability or financial impact to AT&T beyond that provided for at year-end would not be material to AT&T's annual consolidated financial position or results of operations.

On July 6, 1997, MCI Telecommunications Corp. and Ronald A. Katz Technology Licensing, L.P. filed suit in United States District Court in Philadelphia, Pennsylvania against AT&T. The suit alleges that a number of AT&T services infringe patents owned by Katz but licensed to MCI for enforcement against AT&T. AT&T is reviewing the allegations of the Complaint. Based on review to date, it is management's opinion that the claims do not present any material monetary liability or financial impact to AT&T that is not subject to patent indemnity agreements with third-party equipment vendors.

AT&T is also a named party in a number of environmental actions, none of which is material to the consolidated financial statements or business of the Company. In addition, pursuant to the Separation and Distribution Agreement by and among AT&T, Lucent, and NCR, dated as of February 1, 1996, and amended and restated as of March 29, 1996, Lucent has assumed liability, subject to the liability sharing provisions of that agreement, for a number of actions in which AT&T remains a named party. AT&T is working to be released as a party to these actions, although there can be no assurance that it will be successful in this regard.

There are four environmental proceedings which are required to be reported pursuant to Instruction 5.C. of Item 103 of Regulation S-K. In September 1997, the government of the U.S. Virgin Islands filed suit in the federal district court of the Virgin Islands against the Company, AT&T Submarine Systems International ("SSI International"), A&L Underground, Inc., a contractor for SSI International at that time, and other entities. In connection with the purported 1996 release of non-toxic bentonite drilling mud within the coastal region of St. Croix by the contractor, the suit seeks penalties for violations of various federal and Virgin Island statutes; damages under several statutory and common law theories; removal of the mud (which has since been completed to the satisfaction of the federal agency that ordered the cleanup); and restitution of response costs allegedly incurred by the Virgin Islands. SSI International was a wholly owned subsidiary of AT&T at the time of the alleged violation. The foregoing environmental proceeding is not material to the consolidated financial statements or business of the Company and would not be reported but for Instruction 5 C. of Item 103 o Regulation S-K, which requires disclosure of such matters.

In addition, three proceedings involve matters for which Lucent has assumed liability, as described above. On July 31, 1991, the United States Environmental Protection Agency Region III issued a complaint pursuant to Section 3008a of the Resource Conservation and Recovery Act alleging violations of various waste management regulations at the Company's Richmond Works, Richmond, Virginia. The complaint seeks a total of $4.2 million in penalties. In addition, on July 31, 1991, the United States Environmental Protection Agency filed a civil complaint in the U.S. District Court for the Southern District of Illinois against the Company and nine other parties seeking enforcement of its Comprehensive Environmental Response, Compensation and Liability Act ("CERCLA") Section 106 cleanup order, issued in November 1990 for the NL Granite City Superfund site, Granite, Illinois, past costs, civil penalties of $25,000 per day and treble damages related to certain United States' costs. Finally, during 1994, AT&T Nassau Metals Corporation ("Nassau"), a wholly owned subsidiary of AT&T, and the New York State Department of Environmental Conservation ("NYSDEC") were engaged in negotiations over a study and cleanup of the Nassau plant located on Richmond Valley Road in Staten Island, New York. During these negotiations, in June 1994, NYSDEC presented Nassau with a draft consent order which included not only provisions relating to site investigation and remediation but also a provision for payment of a $3.5 million penalty for alleged violations of hazardous waste management regulations. No formal proceeding has been commenced by NYSDEC.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY-HOLDERS.

No matter was submitted to a vote of security holders in the fourth quarter of the fiscal year covered by this report.